ICRA

November 21, 2017

Polo Queen Industrial and Fintech Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	5.00	[ICRA]BB- (Stable); Assigned
Fund-based – Advance against Government supply bills	2.00	[ICRA]BB- (Stable); Assigned
Total	**7.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]BB- (pronounced ICRA double B minus) to the Rs. 7.00 crore[1] fund based facilities of Polo Queen Industrial and Fintech Limited ('PIFL' or 'the company')[2]. The outlook on the long-term rating is Stable.

Rationale

The assigned rating favourably reflects the extensive experience of the promoters in the trading of textiles, chemicals and fast moving consumer goods (FMCG). ICRA notes its longstanding relationship with customers and suppliers, along with moderate recognition of its in-house FMCG brands in the domestic market. The ratings also factor in the company's comfortable capital structure as depicted by low gearing of 0.07 time as on March 31, 2017, due to its strong net-worth base, coupled with the low working capital intensity of its operations.

The rating, however, is constrained by the company's moderate scale of operations in a highly fragmented and competitive industry structure with low entry barriers, which limits pricing flexibility. Furthermore, the low value added nature of its trading business keeps PIFL's profit metrics weak with low return indicators. The ratings also note the de-growth in operating income in FY2017 due to an adverse, albeit temporary, impact on demand and delayed payment realisation emanating from the post effects of the currency demonetisation. The rating is also constrained by the company's concentrated customer base with its top two customers' contribution standing at ~50% of its total sales revenue.

Going forward, the company's ability to ramp up its scale of operations while improving its profitability will be the key rating monitorable. Further, its ability to maintain its working capital requirement at prudent levels would also remain a key rating sensitivity.

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Key rating drivers

Credit strengths

- **Extensive experience of the promoters in the textile and FMCG trading sector -** PIFL belongs to the House of Rajkamal. The promoters have more than three decades of experience, which ensures repeat orders from reputed and established customers.

- **Comfortable capital structure marked by strong net-worth along with low working capital intensity -** The company's capital structure, with a minimal loan and strong net-worth position, has traditionally remained healthy with a low gearing ratio of ~0.04–0.07 time and TOL/TNW of ~0.07–0.15 time since FY2013. Due to the nature of its trading business, the company was able to maintain healthy liquidity levels, indicated by a low working capital intensity of ~7% in FY2016 and FY2017.

Credit weaknesses

- **De-growth in operating revenue in FY2017 due to demonetisation impact and change of focus towards low volume, high profitability products –** The demonetisation in November 2016 impacted PIFL's sales from November 2016 to February 2017. Its average monthly sales decreased to Rs. 1.10 crore during this period, as compared to a monthly average of Rs. 6.40 crore from April to October 2016. Further, the company shifted its focus to higher margin products like FMCG, chemicals and minerals, and reduced the trading of textiles by almost 45%. As a result, the total revenue reduced by ~26% in FY2017 as compared to FY2016. However, the profitability increased significantly from 2.67% in FY2016 to 5.60% in FY2017.

- **High customer concentration risks with the top two customers accounting for almost 50% of the total sales in the last two fiscals -** The company has a high concentrated customer base with the top two customers accounting for 55% and 45% of total sales in FY2016 and FY2017, respectively. However, diversified business portfolio along with a reputed customer base from various industries diminishes the risk to some extent.

- **Thin profitability due to low value added nature of business and intense competition in the textile and FMCG industries –** Due to limited entry barriers, there are numerous organised and unorganised players in the FMCG and textile trading business, which pose intense competition for PIFL. The low value added nature of its business further restricts its profitability, as depicted by low return indicators with return on capital employed (RoCE) and net-worth at 2.09% and 0.71%, respectively, in FY2017. However, due to its pan India presence in the market for more than three decades, the company has lowered the risk to a certain extent.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Trading Companies

About the company:
Polo Queen Industrial and Fintech Limited (PIFL) belongs to the House of Rajkamal, which was founded by late Shri Jiwanram Sanghai over five decades ago. PIFL was incorporated on July 19, 1984, as Searchlight India Limited with its registered office in West Bengal. This was relocated to Mumbai in 1995. The company was renamed as PIFL in 2009, and is presently listed with the Bombay Stock Exchange (BSE). The company is engaged in the trading of minerals, textiles and FMCG.

The company has two depots, one in Delhi (on rental basis) for the distribution of goods in northern India, and the other at Dombivali, Mumbai, which is owned by the company.

In FY2017, the company reported a net profit of Rs. 1.10 crore on an operating income of Rs. 61.35 crore, as compared to a net profit of Rs. 0.51 crore on an operating income of Rs. 83.46 crore in the previous year.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	83.46	61.35
PAT (Rs. crore)	0.51	1.10
OPBDIT/ OI (%)	2.67%	5.60%
RoCE (%)	1.32%	2.09%
Total Debt/ TNW (times)	0.05	0.07
Total Debt/ OPBDIT (times)	3.66	3.15
Interest coverage (times)	1.69	2.05
NWC/ OI (%)	7%	7%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				November 2017	-	-	-
1	Cash credit	Long Term	5.00	[ICRA]BB- (Stable)	-	-	-
2	Advance against govt supply bills	Long Term	2.00	[ICRA]BB- (Stable)	-	-	-

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Instrument Details

ISIN No	Instrument	Date of Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Cash Credit	-	-	-	5.00	[ICRA]BB- (Stable)
	Advance against govt supply bills	-	-	-	2.00	[ICRA]BB- (Stable)

Source: Polo Queen Industrial and Fintech Limited

Contact Details

Analyst Contacts

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Srinivas Menon
+91 22 6169 3354
srinivas.menon@icraindia.com

Yamini Kothari
+91 22 6169 3346
yamini.kothari@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit **www.icra.in**

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20- 6606 9999; Fax: +91-20-25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	